

**FILED**

AUG 09 2010

SECRETARY, BOARD OF  
OIL, GAS & MINING

BEFORE THE BOARD OF OIL, GAS AND MINING

DEPARTMENT OF NATURAL RESOURCES

STATE OF UTAH

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IN THE MATTER OF THE REQUEST )  
FOR AGENCY ACTION OF MAR/REG )  
OIL COMPANY FOR AN ORDER )  
ESTABLISHING 160-ACRE DRILLING )  
AND SPACING UNITS FOR )  
HORIZONTAL WELLS IN AND THE )  
PRODUCTION OF OIL, GAS, AND )  
OTHER HYDROCARBONS FROM )  
THE DESERT CREEK AND UPPER )  
ISMAY FORMATIONS IN THE NE¼ )  
OF SECTION 19, TOWNSHIP 38 )  
SOUTH, RANGE 26 EAST, S.L.M., SAN )  
JUAN COUNTY, UTAH )

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REQUEST FOR  
AGENCY ACTION

Docket No. 2010-024  
Cause No. 188-04

MAR/REG OIL COMPANY, by and through its undersigned attorneys, and pursuant to Utah Code Ann. § 40-6-6, hereby requests the Board of Oil, Gas and Mining to enter an order establishing 160-acre spacing and drilling units for horizontal wells in and the production of oil, gas, and other hydrocarbons from the Desert Creek and Upper Ismay Formations underlying the following described lands in the Squaw Canyon Field located in San Juan County, Utah (hereinafter the "**Subject Lands**"):

Township 38 South, Range 26 East, S.L.M.

Section 19: NE¼

(containing 160.00 acres, more or less)

In support of this Request for Agency Action ("**Request**"), Mar/Reg Oil Company states and represents as follows:

1. Mar/Reg Oil Company (“**Mar/Reg**”) is a Nevada corporation in good standing, having its principal place of business in Reno, Nevada. Mar/Reg is qualified to and is doing business in Utah.

2. The Board of Oil, Gas and Mining (the “**Board**”) has jurisdiction of the parties and subject matter of this Request, pursuant to Sections 40-6-5 and 40-6-6 of the Utah Code Annotated.

3. Mar/Reg operates the Squaw Canyon Federal #1-19 Well and the Squaw Canyon #3-19 Federal Well, both of which are located on the Subject Lands.

4. The minerals in the lands embraced within the following described lands are owned by the United States of America.

Township 38 South, Range 26 East, S.L.M.

Section 19: All

(containing 640.00 acres, more or less)

The oil and gas minerals in the NE¼ (comprising the Subject Lands) and SW¼ of said Section 19 are subject to United States Oil and Gas Lease No. U-40401 (the “**Subject Lease**”). The oil and gas minerals in the NW¼ and SE¼ of said Section 19 are unleased. The surface of Section 19 is owned by the United States of America. The United States Department of the Interior, Bureau of Land Management administers the federally-owned minerals and lands.

5. Mar/Reg’s partner, Nathan Oil LLC, owns 75% of the operating rights in the Subject Lease beneath the Subject Lands in the stratigraphic interval from the surface of the Earth to 5,612 feet. Questar Exploration & Production Company (“**QEP**”) owns the remaining operating rights in that interval. The referenced stratigraphic interval includes the “Spaced Intervals” as defined in Paragraph 7 herein. QEP and ExxonMobil Corporation (“**Exxon**”) each own a 50%

interest in the operating rights below 5,612 feet beneath the Subject Lands. QEP (25%), Exxon (50%), and Devon Energy Corporation (25%) own the operating rights in the SW¼ of Section 19 from the surface to 5,612 feet. QEP and Exxon each own a 50% interest in the operating rights below 5,612 feet in the SW¼.

6. The lands and minerals within Section 19 were subject to spacing orders entered by the Board in Causes Nos. 188-1, 188-1(C), 188-3, and 188-3(A) (the “**Previous Orders**”). All of the Previous Orders have been vacated. Accordingly, the lands within Section 19, including the Subject Lands, are not currently subject to any spacing order of the Board for the production of oil, gas, or other hydrocarbons. The lands are currently governed by the Board’s general well-location and siting rules set forth in Utah Administrative Code (“**U.A.C.**”) Rule R649-3-2(1), which authorizes one well to be drilled for the production of oil or gas in the center of every public land survey quarter-quarter section or equivalent lot. With respect to horizontal wells, the lands within Section 19 are subject to a temporary 640-acre spacing unit consisting of all of Section 19 for horizontal wells established by U.A.C. Rule R649-3-2(6).

7. The formations to be unitized for drilling and spacing purposes are (1) the Desert Creek Formation described as follows (the “**Desert Creek Interval**”):

The Desert Creek Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal #1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,480 feet and the base of the spaced formation being found at a measured depth of 5,580 feet or to the stratigraphic equivalent thereof

and (2) the Upper Ismay Formation described as follows (the “**Upper Ismay Interval**”):

The Upper Ismay Formation as identified by the Dual Induction SFL log in the Squaw Canyon Federal # 1-19 Well located in the SE¼NE¼ of Section 19, Township 38 South, Range 26 East, San Juan County, Utah, with the top of the spaced formation being found at a measured depth of 5,250 feet and

the base of the spaced formation being found at a measured depth of 5,400 feet or to the stratigraphic equivalent thereof

(The Desert Creek Interval and the Upper Ismay Interval are collectively referred to herein as the “**Spaced Intervals.**”)

8. Mar/Reg believes and therefore states that the Spaced Intervals underlie all or substantially all of the Subject Lands and generally constitute separate pools and common sources of supply for oil, gas, and other hydrocarbons contained within the Subject Lands.

9. The following wells have been drilled within Section 19:

a. Squaw Canyon Federal #1-19 Well (API #43-037-30485) located in the SE $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 19. This well is operated by Mar/Reg and was completed as a vertical well in October 1979. The well was recompleted in September 1987. The well has produced from the Desert Creek and Ismay Formations, but is currently shut-in.

b. Squaw Canyon #3-19 Federal Well (API #43-037-30622) located in the NW $\frac{1}{4}$ NE $\frac{1}{4}$  of Section 19. This well is operated by Mar/Reg and was completed as a vertical well in October 1981. The well currently produces oil from the Desert Creek and Ismay Formations.

c. Federal #19-2 Well (API #43-037-30494) located in the NW $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 19. This well has been plugged and abandoned.

d. Squaw Canyon Federal #10-19 Well (API #43-037-30785) located in the NW $\frac{1}{4}$ SE $\frac{1}{4}$  of Section 19. This well has been plugged and abandoned.

e. Three Amigos Federal #1 Well (API #43-037-31456) located in the NE $\frac{1}{4}$ NW $\frac{1}{4}$  of Section 19. This well has been plugged and abandoned.

10. Mar/Reg intends to drill a new horizontal well as an offset to the Squaw Canyon Federal #1-19 Well. Mar/Reg believes and therefore states that each of the Spaced Intervals contains a separate pool. Thus, a lateral will be drilled into the Desert Creek Interval and a separate lateral will be drilled into the Upper Ismay Interval. The production from each interval will be commingled in the wellbore. Mar/Reg believes and therefore states that correlative rights will not be adversely affected by the commingling because the ownership interests in each interval are the same. Mar/Reg also intends to continue producing the Squaw Canyon #3-19 Federal Well as a vertical well and return the Squaw Canyon Federal #1-19 Well to production as a vertical well.

11. Mar/Reg believes and therefore states that in order to protect correlative rights and to prevent waste 160-acre drilling and spacing units for horizontal wells for the Spaced Intervals beneath the Subject Lands should be established, and further that 160 acres is not smaller than the maximum area that can be efficiently and economically drained by one horizontal well completed and producing from each Spaced Interval located beneath the Subject Lands. Mar/Reg requests that the horizontal interval (i.e., all horizontal laterals) in the permitted well for each such unit be located no closer than 1,320 feet from other wells completed and producing from the Spaced Interval in the Subject Lands, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells, and no closer than 660 feet from the outer boundary of the 160-acre drilling and spacing units.

12. Mar/Reg believes and therefore states that to allow other parties the opportunity to drill horizontal wells within the Spaced Intervals within the remaining NW $\frac{1}{4}$ , SW $\frac{1}{4}$ , and SE $\frac{1}{4}$  of Section 19, temporary 160-acre spacing units for the Desert Creek Interval and Upper Ismay Interval comprised of each of those quarter-sections should be established, and that the horizontal interval (i.e., all horizontal laterals) in the permitted well for each such unit be located no

closer than 1,320 feet from other wells completed and producing from the Spaced Intervals, and no closer than 660 feet from the outer boundary of the temporary 160-acre drilling and spacing units, and further that the surface location for the unit well in each temporary unit may be located anywhere within the quarter-section. Additionally, the existing 640-acre temporary spacing unit affecting all other stratigraphic intervals beneath Section 19 established by U.A.C. Rule R649-3-2(6) should remain in place.

13. Mar/Reg believes and therefore states that establishing the proposed drilling and spacing units is just and reasonable and will allow for the orderly development of the Spaced Intervals within the Subject Lands as well as the other affected stratigraphic intervals and lands. Establishing such units will prevent waste, adequately protect the correlative rights of all affected parties, promote the public interest, and increase the ultimate recovery of hydrocarbons from the Subject Lands. Mar/Reg is prepared to present evidence and testimony in support of these allegations.

14. Mar/Reg has included in the mailing certificate attached to the Request a list of names and last known addresses of all persons known to Mar/Reg whose legally protected interests in the Subject Lands and the remainder of Section 19 will be affected by the Request, including known mineral owners, overriding royalty or other production interest owners, and producers and operators.

**WHEREFORE**, Mar/Reg respectfully requests the Board to:

A. Set this matter for hearing at the regularly scheduled meeting of the Board to be held on September 22, 2010, to consider approving an order establishing the proposed drilling and spacing units for horizontal wells within the Desert Creek and Upper Ismay Formations

underlying the Subject Lands and the temporary spacing units in the remaining lands in Section 19 as requested herein.

B. Give notice of this Request for Agency Action and the hearing as provided by the laws of the State of Utah and regulations issued pursuant thereto. The names and last known addresses of all persons known by Mar/Reg whose legally protected interests in the Subject Lands and the remaining lands in Section 19 will be affected by this Request are set forth in the mailing certificate attached to this Request.

C. Conduct a hearing at which Mar/Reg and all interested parties may be allowed to present evidence regarding: (1) establishing the proposed 160-acre drilling and spacing units for horizontal wells within the Spaced Intervals within the Desert Creek and Upper Ismay Formations underlying the Subject Lands and the temporary spacing units in the remaining lands in Section 19; (2) providing that each such drilling and spacing unit shall be comprised of a governmental quarter section; and (3) providing that the horizontal interval in the unit well for each such drilling and spacing unit shall be located no closer than 1,320 feet from other wells completed in and producing from the Spaced Intervals within the Subject Lands and the temporary spacing units in the remaining lands in Section 19, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells located in the NE $\frac{1}{4}$  of Section 19 with regard to the new horizontal well to be drilled in the NE $\frac{1}{4}$ , and that such unit well be located no closer than 660 feet from the outer boundary of the spacing unit.

D. Make such findings as it deems necessary in connection with this Request.

E. Enter an order replacing the temporary 640-acre spacing unit consisting of Section 19 established by U.A.C. Rule R649-3-2(6) with the proposed 160-acre drilling and spacing units for horizontal wells within the Spaced Intervals within the Desert Creek and Upper Ismay

Formations underlying the Subject Lands and establishing temporary spacing units in the remaining lands in Section 19 as described above; providing that such drilling and spacing units shall be comprised of a governmental quarter section; providing that the horizontal interval (i.e., all horizontal laterals) in the unit well for each such drilling and spacing unit shall be located no closer than 1,320 feet from other wells completed in and producing from the Spaced Interval within the Subject Lands and the remaining lands in Section 19, with the exception of the Squaw Canyon Federal #1-19 and Squaw Canyon #3-19 Federal Wells with regard to the new horizontal well to be drilled in the NE¼ of Section 19, and that such unit well be located no closer than 660 feet from the outer boundary of the 160-acre drilling and spacing unit.

F. Provide such other relief as may be just and proper under the circumstances.

Dated this 9th day of August, 2010.

VAN COTT, BAGLEY, CORNWALL & McCARTHY

By 

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Petitioner's Address:

Mar/Reg Oil Company

P.O. Box 18148

Reno, Nevada 89511

Attention: Tariq I. Ahmad PE



## CERTIFICATE OF MAILING

I hereby certify that on this 9th day of August, 2010, I caused a true and correct copy of the foregoing Request for Agency Action to be served via U.S. Mail, properly addressed with postage prepaid, upon each of the following:

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